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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED CREDIT

AND A

PROPOSED LOAN

TO

THE KINGDOM OF MOROCCO

FOR A HIGHWAY PROJECT

September 23, 1969

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED CREDIT AND A PROPOSED LOAN TO THE KINGDOM OF MOROCCO FOR A HIGHWAY PROJECT

1. I submit the following report and recommendation on a proposed credit and a proposed loan, each in an amount in various currencies equivalent to US$ 7.3 million, making a total of US $14.6 million, to the Kingdom of Morocco.

PART I - HISTORICAL

2. This would be the first Bank and IDA operation in the transport sector in Morocco. The project was identified in September 1968 and an appraisal mission visited the country in March-April 1969. Appraisal of the project was completed in July 1969.

3. Negotiations for the credit and the loan took place in Washington on August 11-15, 1969. The Goverrment of Morocco was represented by Mr. El-Mdaghri, Director of the Office of the Budget, Mr. Ghissassi, Secretary General of the Ministry of Public Works, Mr. Fassi-Fahri, Chief of the Investment Budget Office and Mr. Bennis, Member of the Cabinet of the Minister of Finance.

4. The proposed credit, the second for Morocco, would increase the Association's total lending to Morocco to US $18.3 million; the proposed loan, the sixth for Morocco, would increase the Bank's total lending to this country to US $82.1 million. The following is a summary statement of Bank loans and IDA credits to Morocco as of August 31, 1969:

Loan or Credit Number	Year	Borrower	Purpose	(Amount in US $ Million) Bank	IDA	Undisbursed
329	1962	Banque Nationale pour le Développement Economique	Dev. Finance Co.	15.0	-	
389	1964	Kingdom of Morocco	Agriculture	17.5		5.5
79	1965	Kingdom of Morocco	Education		11.0	9.9
433	1965	Caisse Nationale de Crédit Agricole	Agriculture	9.8		0.3
447	1966	Banque Nationale pour le Développement Economique	Dev. Finance Co.	17.5		3.3
571	1968	Banque Nationale pour le Développement Economique	Dev. Finance Co.	15.0		12.6
Total (less cancellations)				74.8		
of which has been repaid to Bank				8.6		
Total now outstanding				66.2		
Amount sold				1.1		
Total now held by Bank and IDA				65.1	11.0	
Total undisbursed				21.7	9.9	31.6

5. The IFC has made two investments in Morocco, one in the Banque Nationale pour le Développement Economique (BNDE), amounting to about US $1.5 million equivalent and the other one in a vegetable canning factory, the Compagnie Industrielle du Lukus (CIL) (about US $1.4 million equivalent).

6. During 1967, the problems encountered in carrying out the two agricultural projects caused concern. In the case of the agricultural credit loan (MOR-389), the difficulties were so serious that the Bank felt obliged to suspend disbursements in February 1968. Subsequently, the steps taken by the Moroccan authorities to overcome the problems in agricultural administration in general and in carrying out the agricultural credit project in particular, made it possible to lift the suspension in September 1968 and to consider new agricultural projects.

7. A US $46 million Bank loan for the development of the Rharb-Sebou irrigation project is being negotiated and the Bank has completed appraisals for a fourth loan to BNDE as well as for a loan to the Crédit Immobilier et Hôtelier (CIH), a corporation established to finance hotel construction.

8. Progress under present loans and credits is generally satisfactory, though disbursements under the education project (MOR-79) are behind schedule. This project had a slow start mainly due to poor preparatory work, including inadequate school designs. Since 1967, school construction has proceeded satisfactorily but there have been delays in the preparation and handling of accounts submitted to the Association for reimbursement.

9. A Consultative Group for Morocco was organized in 1967 and met in April of that year. A second meeting is scheduled for October of this year.

PART II - DESCRIPTION OF THE PROPOSED CREDIT AND LOAN

10. IDA CREDIT

Borrower:	Kingdom of Morocco
Amount:	The equivalent in various currencies of US $7.3 million.
Purpose:	Together with the loan, to finance the foreign exchange costs of a three-year highway improvement program, the construction of a road and four bridges, the purchase of maintenance equipment and spare parts and a transport survey of Morocco's coastal zone.

IDA CREDIT (cont'd)

Amortization:	In fifty years, including a ten-year period of grace, through semi-annual installments of one half of one percent from March 15, 1980 to September 15, 1989 and of one and a half percent from March 15, 1990 through September 15, 2019.
Service Charge:	Three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.
Economic Rate of Return:	Ranging from 11 percent to 28 percent for the various parts of the project.

BANK LOAN

Borrower:	Kingdom of Morocco
Amount:	The equivalent in various currencies of US $7.3 million.
Purpose:	Same as for the Credit.
Amortization:	In twenty years, including a four-year period of grace, through semi-annual payments beginning March 15, 1974 and ending September 15, 1989.
Interest Rate:	Seven percent (7%)
Commitment Charge:	Three-fourths of 1 percent per annum (3/4 of 1%)
Economic Rate of Return:	Same as for the Credit.

PART III - THE PROJECT

12. A report entitled "Appraisal of a Highway Project - Morocco" (PTR-28a), dated September 23, 1969, on the proposed project is attached.

13. Morocco's economy is largely dependent on agricultural production, the transport of which relies almost exclusively on the country's road system. Reliable farm-to-market roads and an efficient trunk road network which connects centers of production, consumption and export are required to support and promote agricultural development. Also, development of tourism, one of the priority objectives in Morocco's Five-Year Plan, will require improvements in the road system. Although the highway network is well developed, certain sections of the trunk road system are in need of selective improvement and some secondary roads are beginning to deteriorate because of inadequate maintenance.

14. The proposed project consists of: (a) the construction of about 106 km. and the improvement of about 72 km. of road between Agadir and Marrakech; (b) a three-year highway improvement program providing for selective strengthening, reconstruction and improvement of sections affecting a total of about 4,000 km. of primary roads; (c) the construction of four bridges; (d) the purchase of maintenance equipment and related spare parts; and (e) a transport survey of the coastal zone to provide the basis for a coordinated investment program for this region and to make recommendations on transport regulation policies and pricing in the country.

15. By improving the trunk road system, and by improving road maintenance at less cost, the various elements of the project will yield substantial benefits to the Moroccan economy. The estimated economic rates of return for the various parts of the project (other than the transport survey) range from 11 percent to 28 percent.

16. Total cost of the project amounts to US $21.2 million, and it includes US $6.6 million for the Agadir-Marrakech road construction, US $6.1 million for the highway improvement program, US $1.3 million for bridge construction, US $3.5 million for the purchase of maintenance equipment, and US $0.5 million for the transport survey of the Atlantic coast region; US $3.2 million has been allowed for contingencies. The proposed loan and credit would finance the foreign exchange component of the above costs, and the Government of Morocco would finance out of budgetary allocations the local costs of the project.

17. The Inspectorate General of Roads will be responsible for execution of the project. It will award contracts for the improvement and construction works on the basis of international competitive bidding under the Association's and the Bank's usual procedures; the work will be divided into contracts of a size attractive to foreign contractors. Similarly, equipment will be procured on the basis of international competitive bidding in accordance with Bank/IDA guidelines. There are Moroccan manufacturers of some of the types of equipment to be financed under the proposed IDA credit and Bank loan; they will be accorded a 15 percent margin of preference in bid comparisons, and disbursements under the credit and the loan will cover the estimated foreign exchange component (65%) of any local procurement.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

18. The draft Development Credit Agreement between the Kingdom of Morocco and the Association, the draft Loan Agreement between the Kingdom of Morocco and the Bank, the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association, the Report of the Committee provided for in Article III, Section 4 (iii) of the Bank's Articles of Agreement, the text of a Resolution approving the proposed Development Credit and the text of a Resolution approving the proposed Loan are being distributed to the Executive Directors separately.

19. The provisions of the Development Credit and Loan Agreements generally conform to the pattern of Association and Bank highway projects. It should be noted, however, that the

proceeds of the Loan will not be disbursed until the amount of the Development Credit has been fully disbursed or committed (Section 2.03 of the draft Loan Agreement).

PART V - THE ECONOMY

20. An economic report entitled "Recent Economic Developments in Morocco" (No. EMA-14, dated August 29, 1969) was distributed to the Executive Directors on September 17, 1969.

21. Morocco's economic performance in the late 1960's improved considerably as compared with the early and mid-1960's when there had been little change in per capita incomes. In 1967, despite poor rainfall, total output rose by 7 percent while in 1968 a record cereals crop accounted for two-thirds of the 12 percent gain in the gross domestic product. Investment expenditures, which had been averaging some 11-12 percent of GDP earlier in the decade, rose to a rate of 13-14 percent in the last years, all of the rise being attributable to public sector outlays. Thus, the 1968-1972 Plan has had a good start, with expenditures close to targets, and progress in other areas pointing to good prospect that most of the major goals of the Plan, with its emphasis on agriculture, tourism and training, may be achieved. Various administrative and organizational improvements have recently been made, including in the planning process itself, and in mid-1969 an important step towards institutional reform was represented by the enactment of an agricultural investment code. Other auspicious recent developments have included the maintenance of internal price stability, a decline in private capital outflows, the conclusion of an accord of association with the European Economic Community and significant gains in tax revenues.

22. Problems of major concern include the very rapid rate of population growth, mounting unemployment in the cities and underemployment on the land, serious shortages of skilled manpower and continuing hesitancy in the private sector. The debt-service burden is still fairly low relative to foreign exchange earnings and to government revenues. The debt-service ratio is expected to be below 10 percent in 1969, but it will rise steadily even if projected substantial gains in exports are achieved. The increased debt-service and a growing investment program are contributing to a rising need for external capital. The recent performance and current outlook indicate that Morocco is credit-

worthy for additional borrowing on conventional terms; however, particularly in light of continuing vulnerability in its balance of payments and in view of the rising debt burden, there is a good case for making available some assistance on concessionary terms.

PART VI - COMPLIANCE WITH THE ARTICLES OF AGREEMENT

23. I am satisfied that the proposed credit and loan would comply with the Articles of Agreement of the Association and the Bank respectively.

PART VII - RECOMMENDATION

24. I recommend that the Executive Directors approve the proposed credit and loan.

Robert S. McNamara
President

Attachments